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E.O. 11652: N/A
TAGS: OECD, ECON
SUBJECT: OECD MINISTERIAL COMMUNIQUE

FOLLOWING IS THE COMMUNIQUE APPROVED BY MINISTERS AT
THE OECD MINISTERIAL MEETING, JUNE 14-15, 1978:

1. THE COUNCIL OF THE ORGANISATION FOR ECONOMIC CO-
OPERATION AND DEVELOPMENT MET AT MINISTERIAL LEVEL ON
JUNE 14-15, 1978, UNDER THE CO-CHAIRMANSHIP OF
MR. KIICHI MIYAZAWA, MINISTER OF ECONOMIC PLANNING OF
JAPAN, AND MR. NOBUHIKO USHIBA, MINISTER FOR EXTERNAL
ECONOMIC AFFAIRS OF JAPAN.

2. AGREEMENT WAS REACHED ON THE MAJOR COMPONENTS OF A
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BROAD PROGRAMME OF INTERNATIONALLY CONCERTED ACTION BY
MEMBER COUNTRIES TO ACHIEVE MORE SUSTAINED ECONOMIC
GROWTH, AND ON THE RESPECTIVE RESPONSIBILITIES OF
INDIVIDUAL MEMBER COUNTRIES IN CONTRIBUTING TO FASTER
GROWTH, GREATER PRICE STABILITY, BETTER PAYMENTS
EQUILIBRIUM AND STRENGTHENED ENERGY POLICIES. RECOG-
NISING THAT THE MAINTENANCE OF AN OPEN MARKET-ORIENTED

ECONOMIC SYSTEM IS AN ESSENTIAL PART OF THIS PROGRAMME, MINISTERS RENEWED THE DECLARATION OF MAY 30, 1974 (THE "TRADE PLEDGE") AND AGREED ON THE GENERAL ORIENTATIONS FOR POLICIES TO FACILITATE THE STRUCTURAL ADJUSTMENTS NEEDED TO SUSTAIN FASTER ECONOMIC GROWTH (ANNEXED TO THIS COMMUNIQUE).

3. MINISTERS CONSIDERED THE IMPLICATIONS OF THE GROWING ECONOMIC INTERDEPENDENCE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES FOR TRADE AND INVESTMENT. THEY CONFIRMED THEIR COMMITMENT TO CONSTRUCTIVE POLICIES FOR DEVELOPMENT CO-OPERATION TO HELP DEVELOPING COUNTRIES TO STRENGTHEN AND DIVERSIFY THEIR ECONOMIES AND TO IMPROVE THE WELFARE OF THEIR PEOPLE. THEY EMPHASIZED THAT THE CAPACITY OF DEVELOPING COUNTRIES TO PARTICIPATE MORE FULLY IN WORLD ECONOMIC GROWTH WOULD BE STRENGTHENED BY AN INCREASE IN THE FLOW OF RESOURCES, INCLUDING INCREASED AID, AND AN IMPROVEMENT IN THE CONDITIONS OF WORLD TRADE.

I. THE ECONOMIC BACKGROUND

4. MINISTERS NOTED THAT DESPITE THE DIFFICULT CIRCUMSTANCES THERE HAS BEEN SOME IMPROVEMENT IN WORLD ECONOMIC CONDITIONS: RECESSION HAS BEEN REPLACED BY POSITIVE ECONOMIC GROWTH; INFLATION HAS BEEN SIGNIFI-
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CANTLY REDUCED; UNEMPLOYMENT HAS BEEN SUBSTANTIALLY REDUCED IN THE UNITED STATES AND HAS BEEN MITIGATED IN A NUMBER OF MEMBER COUNTRIES, INTER ALIA BY SPECIAL MANPOWER AND EMPLOYMENT POLICIES; AN OPEN TRADING SYSTEM HAS BEEN MAINTAINED; SOME IMPORTANT PAYMENTS IMBALANCES HAVE BEEN CORRECTED; AND INTERNATIONAL FINANCIAL MARKETS HAVE HELPED TO ALLEVIATE THE PROBLEMS POSED BY LARGE TRADE IMBALANCES INSIDE AND OUTSIDE THE OECD. NONETHELESS, THE RECORD OF RECENT YEARS IS IN MANY WAYS DISAPPOINTING: UNSATISFACTORY GROWTH RATES; INFLATION AND UNEMPLOYMENT RATES THAT ARE STILL TOO HIGH; PERIODS OF DISORDERLY EXCHANGE-MARKET CONDITIONS; INCREASING PRESSURES FOR FORMS OF GOVERNMENT INTERVENTION WHICH INHIBIT MARKET FORCES IN GENERAL AND WORLD TRADE IN PARTICULAR; AND INSUFFICIENT PREPARATION AGAINST FUTURE NEEDS IN RESPECT OF ENERGY. WHILE THESE DEVELOPMENTS ARE HARMFUL TO THE WELFARE OF ALL COUNTRIES, THE ADVERSE CONSEQUENCES FOR THE DEVELOPMENT

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PROSPECTS OF THE POORER COUNTRIES ARE OF PARTICULAR
CONCERN.

5. MINISTERS RECOGNISED THE COSTS AND DANGERS INHERENT
IN THE CONTINUATION OF PRESENT TRENDS:

- THERE ARE INCREASING ECONOMIC AND SOCIAL COSTS
OF CONTINUING HIGH LEVELS OF UNEMPLOYMENT,
PARTICULARLY AMONG YOUTH AND DISADVANTAGED
GROUPS.
- THERE ARE GROWING PRESSURES FOR PROTECTION
AGAINST FOREIGN COMPETITION AND FOR EXPORT
SUBSIDIES, AND A GROWING RISK THAT UNILATERAL
TRADE AND OTHER CURRENT-ACCOUNT MEASURES COULD
TOUCH OFF CHAIN REACTIONS.

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- THERE HAS BEEN A TENDENCY FOR SECTORAL,

REGIONAL AND MANPOWER POLICIES TO SHIFT FROM ACTION TO FOSTER ADJUSTMENT TO STRUCTURAL CHANGE TO MEASURES OF A DEFENSIVE CHARACTER THAT TEND TO PRESERVE THE STATUS QUO, WHICH THUS IN IMPORTANT RESPECTS HAVE THE SAME EFFECTS AS PROTECTIONIST TRADE MEASURES. UNDER CONDITIONS OF HIGH UNEMPLOYMENT, SOME DOMESTIC MEASURES TO MAINTAIN EXISTING EMPLOYMENT IN SECTORS OR COMPANIES IN FINANCIAL DIFFICULTY MAY IN CERTAIN CIRCUMSTANCES BE JUSTIFIED IN THE SHORT RUN. BUT THEIR CONTINUATION ON A LARGE SCALE WOULD OVER TIME UNDERMINE THE DYNAMIC PROCESS WHICH UNDERLIES RISING PRODUCTIVITY AND WOULD INHIBIT SUSTAINED NON-INFLATIONARY GROWTH.

- THE TASK OF CREATING SUFFICIENT JOBS IN SOME LESS-INDUSTRIALISED MEMBER COUNTRIES HAS BEEN MADE MUCH MORE DIFFICULT BY RESTRICTIONS ON IMMIGRATION, BY THE RETURN OF MIGRANTS DUE TO THE RECESSION, AND BY SERIOUS PAYMENTS DIFFICULTIES, AND THEIR DEVELOPMENT RISKS BEING GRAVELY IMPEDED IF IT TAKES PLACE IN A CLIMATE OF DEPRESSED WORLD TRADE AND GROWING PROTECTIONISM.

6. MINISTERS DISCUSSED THE CONSTRAINTS ON ECONOMIC GROWTH. MANY OF THESE ARE INTERNAL TO THE COUNTRIES IN QUESTION: HIGH RATES OF INFLATION, LOW PROFITS, HEAVY DEPENDENCE ON EXPORTS AND DIFFICULTIES IN FINANCING LARGE BUDGET DEFICITS WITHOUT ADVERSE EFFECTS ON INFLATIONARY EXPECTATIONS AND CONCERN ABOUT THE

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RAPID INCREASE IN GOVERNMENTS' INDEBTEDNESS. THERE IS ALSO AN EXTERNAL CONSTRAINT ON COUNTRIES WITH A WEAK BALANCE OF PAYMENTS. TOGETHER, THE PERSISTENCE OF HIGH RATES OF INFLATION, LOW LEVELS OF PROFITS AND CAPACITY UTILISATION, LARGE INTERNATIONAL PAYMENTS DISEQUILIBRIA AND PERIODS OF DISORDERLY EXCHANGE-MARKET CONDITIONS HAVE DEPRESSED BUSINESS CONFIDENCE. A FURTHER SIGNIFICANT FACTOR HAS BEEN UNCERTAINTIES ABOUT THE FUTURE SUPPLY AND PRICE OF ENERGY, RESULTING IN PART FROM DELAYS IN THE IMPLEMENTATION OF EFFECTIVE ENERGY POLICIES. UNDER THESE CONDITIONS, PRIVATE INVESTMENT HAS NOT RESPONDED AS EXPECTED TO THE ACTION TAKEN TO STIMULATE AGGREGATE DEMAND.

7. WHILE RECOGNISING THESE CONSTRAINTS, MINISTERS REAFFIRMED THE DECISION THEY TOOK IN 1976 TO AIM FOR A

MODERATE BUT SUSTAINED RATE OF EXPANSION, SUFFICIENT TO ACHIEVE A PROGRESSIVE RETURN TO FULL EMPLOYMENT OVER A NUMBER OF YEARS, BUT NOT SO FAST AS TO RISK THE RE-EMERGENCE OF BOTTLENECKS AND AN UPSURGE OF INFLATION-ARY EXPECTATIONS. IN LINE WITH THIS STRATEGY, MINISTERS AGREED THAT THERE IS A CLEAR NEED TO STEP UP ECONOMIC GROWTH IN THE OECD AREA AS A WHOLE ABOVE THE RATE EXPERIENCED OVER THE LAST 18 MONTHS SO AS TO REDUCE UNEMPLOYMENT. WHILE EXPANSIONARY DEMAND MANAGEMENT POLICIES HAVE A ROLE TO PLAY, THIS CANNOT BE ACHIEVED SIMPLY BY INJECTIONS OF ADDITIONAL PURCHASING POWER. THE DIFFICULTIES NOW FACING THE WORLD ECONOMY ARE INSEPARABLE AND CANNOT BE LOOKED AT IN ISOLATION: GROWTH, JOBS, PRICE STABILITY, ENERGY, ADJUSTMENT TO STRUCTURAL CHANGE, ARE ONLY INDIVIDUAL FACETS OF THE

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OVERALL PREDICAMENT FACING MEMBER COUNTRIES TODAY. WHAT IS NEEDED NOW, AND OVER THE MEDIUM TERM, IS A COMBINATION OF POLICIES TO ENSURE ADEQUATE DOMESTIC DEMAND AND TO CREATE THE RIGHT ENVIRONMENT FOR SUSTAINABLE GROWTH, WHICH REQUIRES LESS INFLATION, THE MAINTENANCE OF AN OPEN MARKET-ORIENTED ECONOMIC SYSTEM, AND A

RECOVERY IN PRODUCTIVE INVESTMENT AND PROFITS.

8. A KEY FEATURE OF THE PROGRAMME OF CONCERTED ACTION SET OUT BELOW IS THAT DIFFERENTIATED ACTION ON VARIOUS FRONTS BY EACH MEMBER COUNTRY CAN, TAKEN TOGETHER, EASE THE CONSTRAINTS FACING EACH OF THEM INDIVIDUALLY:

- THE CONTINUATION AND, IN SOME CASES, STRENGTHENING OF ANTI-INFLATIONARY POLICIES IN COUNTRIES WITH A POOR PRICE PERFORMANCE WILL LESSEN THE

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RISK THAT FASTER GROWTH IN THE OECD AREA AS A WHOLE SETS OFF A RENEWED BURST OF INFLATION;

- ACTION BY AN IMPORTANT GROUP OF COUNTRIES TO ACHIEVE FASTER GROWTH WILL EASE THE BALANCE-OF-PAYMENTS CONSTRAINTS ON COUNTRIES IN A WEAK EXTERNAL POSITION;

- BY ACTING TOGETHER COUNTRIES WILL INDIVIDUALLY NEED TO TAKE LESS EXPANSIONARY ACTION, AND INCUR SMALLER BUDGET DEFICITS, THAN IF THEY ACTED IN ISOLATION;

- POLICIES TO FACILITATE ADJUSTMENT TO STRUCTURAL CHANGES WILL HELP TO ENSURE THAT RISING DEMAND IS MATCHED BY INCREASED SUPPLY POTENTIAL; AND

- STRONGER POLICIES TO ENCOURAGE CONSERVATION AND INCREASE PRODUCTION OF ENERGY IN COUNTRIES BEST PLACED TO DO SO WILL IMPROVE CONFIDENCE IN ALL MEMBER COUNTRIES.

9. MINISTERS UNDERLINED THE FACT THAT SUCCESSFUL IMPLEMENTATION OF THIS PROGRAMME DEPENDS NOT ONLY ON GOVERNMENT POLICY, BUT ALSO ON THE EXTENT TO WHICH ALL CONCERNED PURSUE RESPONSIBLE ATTITUDES TOWARDS THE DETERMINATION OF PRICES AND INCOMES. THEY STRESSED THEIR CONVICTION THAT, WITH THE NECESSARY CO-OPERATION FROM BOTH SIDES OF INDUSTRY, MORE SUSTAINED AND BETTER BALANCED ECONOMIC GROWTH CAN BE SECURED WITH A FURTHER PROGRESSIVE REDUCTION OF INFLATION.

II. A PROGRAMME OF CONCERTED ACTION

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10. AGAINST THIS BACKGROUND, MINISTERS HAVE AGREED ON THE FOLLOWING MAJOR COMPONENTS OF A PROGRAMME OF CONCERTED ACTION.

DEMAND MANAGEMENT AND STABILIZATION

11. MINISTERS AGREED ON THE RESPECTIVE RESPONSIBILITIES OF INDIVIDUAL MEMBER COUNTRIES IN CONTRIBUTING TO FASTER GROWTH, GREATER PRICE STABILITY AND BETTER PAYMENTS EQUILIBRIUM OVER THE NEXT 18 MONTHS:

(I) BELGIUM, CANADA, FRANCE, GERMANY, ITALY, JAPAN, SWITZERLAND AND THE UNITED KINGDOM SHOULD ENSURE, BY APPROPRIATE MEASURES AS NECESSARY, THAT THE EXPANSION OF THEIR DOMESTIC DEMAND IS SIGNIFICANTLY GREATER THAN IN 1977 OR, WHERE CAPACITY IS ALREADY FULLY UTILISED, SHOULD ENSURE THAT TOTAL DEMAND INCREASES IN LINE WITH PRODUCTIVE CAPACITY. THE NETHERLANDS SHOULD CONSOLIDATE THE EFFECTS OF THE BOOST IN DOMESTIC DEMAND WHICH WAS ACHIEVED LAST YEAR. THE SCALE AND TIMING OF EXPANSIONARY ACTION BY COUNTRIES IN THIS GROUP SHOULD BE DETERMINED IN THE LIGHT OF THEIR INTERNAL AND EXTERNAL CIRCUMSTANCES; IN THIS RESPECT A PARTICULAR RESPONSIBILITY LIES WITH COUNTRIES IN A STRONG BALANCE-OF-

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PAYMENTS POSITION. SUCH ACTION SHOULD NOT
UNDERMINE ANTI-INFLATIONARY POLICIES.

(II) ALL OTHER MEMBER COUNTRIES, WHO ARE NOT
CURRENTLY IN A POSITION TO TAKE EXPLICIT
ACTION TO EXPAND DOMESTIC DEMAND BEYOND WHAT
IS NOW IN PROSPECT, SHOULD CONCENTRATE
PRIMARILY ON REDUCING INFLATION AND IMPROVING
THEIR BALANCE-OF-PAYMENTS POSITION. MOST
COUNTRIES IN THIS GROUP CAN ACCEPT THE
FASTER GROWTH WHICH CONCERTED ACTION WILL
IMPART THROUGH A STRONGER RISE IN THEIR
EXPORTS. BUT IN A FEW OF THEM, WHERE ACTIVITY
HAS BEEN INCREASING BRISKLY AND DEMAND
PRESSURES ARE QUITE STRONG, INCREASED EXPORTS
RESULTING FROM CONCERTED ACTION SHOULD BE
ACCOMPANIED BY REINFORCED STABILIZATION

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POLICIES WHICH PREVENT ANY NET ADDITION TO
TOTAL DEMAND. IT IS PARTICULARLY IMPORTANT
THAT THE RECENT ACCELERATION OF INFLATION
IN THE UNITED STATES SHOULD BE REVERSED.

MAINTENANCE OF AN OPEN MARKET-ORIENTED ECONOMIC SYSTEM

12. MINISTERS AGREED THAT FIRM COMMITMENTS TO MAINTAIN
AN OPEN MARKET-ORIENTED ECONOMIC SYSTEM ARE ESSENTIAL
TO THE SUCCESS OF THIS PROGRAMME. TO THIS END,
MINISTERS:

(I) REITERATED THEIR COMMITMENT TO AN OPEN
MULTILATERAL TRADING SYSTEM AND DECIDED TO
RENEW THE DECLARATION TO THIS EFFECT OF
MAY 30, 1974, WITH A NEW PREAMBLE WHICH
TAKES INTO ACCOUNT DEVELOPMENTS SINCE THEN AND
REFLECTS THE SPIRIT IN WHICH THEY INTEND TO
PURSUE ITS IMPLEMENTATION (SEE ANNEX I).

(II) REAFFIRMED THEIR DETERMINATION TO BRING THE

MULTILATERAL TRADE NEGOTIATIONS TO A SUCCESSFUL OUTCOME IN THE NEAR FUTURE.

(III) EXPRESSED SATISFACTION THAT THE NEGOTIATIONS FOR AN ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS HAD BEEN SUCCESSFULLY CONCLUDED IN FEBRUARY. THE UNITED STATES AND CANADA REQUESTED OTHER PARTICIPANTS IN IT TO ENTER INTO NEGOTIATIONS FOR THE SUBSTANTIVE IMPROVEMENT OF THE EXISTING ARRANGEMENT. OTHER PARTICIPANTS WERE NOT IN A POSITION TO REACT DEFINITELY TO THIS REQUEST

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ON THIS OCCASION. HOWEVER, IN RECALLING THAT THE ARRANGEMENT HAD ONLY COME INTO FORCE IN APRIL, THEY NOTED THE PROVISION IN IT FOR REVIEWS AT REGULAR INTERVALS, STARTING THIS AUTUMN, OF ITS OPERATION IN PRACTICE AND THAT THESE REVIEWS WOULD PROVIDE THE OPPORTUNITY TO CONSIDER ANY FURTHER SUGGESTIONS FOR REINFORCING ADMINISTRATION OF THE GUIDELINES.

(IV) AGREED ON THE GENERAL ORIENTATIONS FOR POLICIES TO FACILITATE THE STRUCTURAL ADJUSTMENTS NEEDED TO SUSTAIN FASTER ECONOMIC GROWTH ANNEXED TO THIS COMMUNIQUE (ANNEX II).

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ENERGY

13. MINISTERS TOOK NOTE OF THE DECISION AS ADOPTED BY THE GOVERNING BOARD OF THE INTERNATIONAL ENERGY AGENCY AT MINISTERIAL LEVEL ON 6 OCTOBER, 1977. THEY STRESSED THAT STRENGTHENED ENERGY POLICIES FROM AN ESSENTIAL PART OF THE CONCERTED ACTION PROGRAMME. WHILE RECOGNISING THAT CONSIDERABLE PROGRESS HAS BEEN MADE, MINISTERS UNDERLINED THE FOLLOWING ORIENTATIONS FOR ENERGY POLICIES AND AGREED THAT THEY NEED TO BE PURSUED VIGOROUSLY:

(I) COUNTRIES WHERE ENERGY PRICING IS STILL BELOW WORLD LEVELS SHOULD PAY PARTICULAR ATTENTION TO THIS ELEMENT IN ENERGY POLICIES SINCE THE PRICE MECHANISM IS ONE OF THE MOST IMPORTANT INSTRUMENTS FOR PROMOTING INCREASED EFFICIENCY
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OF ENERGY USE AND FOR EXPANDING ENERGY SUPPLIES.

(II) MORE SHOULD BE DONE TO ACHIEVE GREATER ENERGY CONSERVATION, TO REPLACE OIL BY OTHER FORMS OF ENERGY (PARTICULARLY BY EXPANDING COAL USE, ASSURING ADEQUATE NUCLEAR PROGRAMMES AS APPROPRIATE AND DEVELOPING STABLE AND RELIABLE CONDITIONS FOR TRADE IN COAL AND NUCLEAR FUELS AND TECHNOLOGIES) AND TO ENCOURAGE EXPANDED OIL AND GAS EXPLORATION AND DEVELOPMENT AND INTENSIFIED RESEARCH AND DEVELOPMENT FOR NEW ENERGY TECHNOLOGIES. A KEY REQUIREMENT IS THE NEED TO RESOLVE AS SOON AS POSSIBLE CONFLICTS WHICH MAY EXIST BETWEEN ENERGY REQUIREMENTS AND IMPORTANT ENVIRONMENTAL, REGIONAL, SAFETY AND SECURITY CONCERNS.

14. GIVEN ITS PREDOMINANT WEIGHT AS BOTH A CONSUMER AND

PRODUCER OF ENERGY AND THE COST OF OIL IMPORTS TO ITS BALANCE OF PAYMENTS, IT IS OF DECISIVE IMPORTANCE THAT THE UNITED STATES SHOULD COMPLETE THE ADOPTION OF A COMPREHENSIVE ENERGY POLICY ALONG THESE LINES AS SOON AS POSSIBLE. AT THE SAME TIME, OTHER MEMBER COUNTRIES HAVE, IN THE AGGREGATE, AN EQUALLY IMPORTANT CONTRIBUTION TO MAKE, AND MINISTERS AGREED THAT IN THESE COUNTRIES ENERGY POLICIES NEED TO BE STRENGTHENED FURTHER.

MONETARY COOPERATION

15. IMPLEMENTATION OF POLICIES ALONG THE LINES DESCRIBED ABOVE, PARTICULARLY IF ADOPTED IN THE FRAMEWORK OF A CONCERTED PROGRAMME, WILL NOT ONLY IMPROVE THE PROSPECTS FOR ECONOMIC GROWTH, BUT WILL ALSO HELP TO REDUCE EXIST-
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ING PAYMENTS IMBALANCES AND THEREBY CONTRIBUTE TO GREATER STABILITY IN FOREIGN EXCHANGE MARKETS. MINISTERS AGREED THAT MONETARY POLICY HAS AN IMPORTANT ROLE TO PLAY IN THE ACHIEVEMENT OF THESE OBJECTIVES. WHILE RECOGNISING THAT EXCHANGE RATES NEED TO REFLECT UNDERLYING ECONOMIC CONDITIONS, MINISTERS AGREED THAT THEIR COUNTRIES WILL CONTINUE TO COOPERATE CLOSELY AND TO INTERVENE IN EXCHANGE MARKETS TO COUNTER DISORDERLY CONDITIONS. GREATER STABILITY IN FOREIGN EXCHANGE MARKETS WILL, IN TURN, IMPROVE CONFIDENCE AND HELP TO ACHIEVE SUSTAINED ECONOMIC GROWTH.

16. MINISTERS AGREED THAT THE PROMPT IMPLEMENTATION OF THE VARIOUS COMPONENTS OF THIS PROGRAMME OF CONCERTED ACTION SHOULD BE FOLLOWED UP IN THE APPROPRIATE BODIES OF THE ORGANISATION.

17. MINISTERS NOTED THE WORK UNDERTAKEN WITH RESPECT TO PARAGRAPH 17 OF THE COMMUNIQUE ISSUED AFTER THEIR LAST MEETING CONCERNING THE PARTICULAR PROBLEMS OF THE LESS-INDUSTRIALISED MEMBER COUNTRIES, AND AGREED THAT THE OUTCOME OF THIS WORK SHOULD BE REPORTED TO THE NEXT MEETING OF THE COUNCIL AT MINISTERIAL LEVEL.

III. GLOBAL INTERDEPENDENCE AND RELATIONS WITH DEVELOPING COUNTRIES

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18. MINISTERS REVIEWED RELATIONS WITH DEVELOPING COUNTRIES IN THE PERSPECTIVE OF DEVELOPMENT COOPERATION AND THE MANAGEMENT OF GLOBAL INTERDEPENDENCE. RECOGNISING THAT THE PROSPERITY OF THE OECD COUNTRIES CANNOT BE PURSUED IN ISOLATION, THEY EMPHASIZED THE IMPORTANCE OF STRENGTHENED COOPERATION WITH THE DEVELOPING COUNTRIES TO ADVANCE COMMON INTERESTS IN EFFICIENT GLOBAL ECONOMIC MANAGEMENT AND MUTUALLY BENEFICIAL CHANGES IN THE STRUCTURE AND BALANCE OF THE WORLD ECONOMY. THEY ALSO STRESSED THE NEED FOR POSITIVE POLICIES FOR INCREASED AND MORE EFFECTIVE SUPPORT OF ACCELERATED ECONOMIC AND SOCIAL DEVELOPMENT OF THE DEVELOPING COUNTRIES. THEY NOTED WITH SATISFACTION THE RECENT ESTABLISHMENT OF THE UNITED NATIONS GENERAL ASSEMBLY COMMITTEE OF THE WHOLE AS A NEW FORM OF DIALOGUE ON GLOBAL ECONOMIC ISSUES WITH THE DEVELOPING COUNTRIES. THEY EXPRESSED THE HOPE
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THAT ITS WORK WOULD BE DEVELOPED CONSTRUCTIVELY AND
AFFIRMED THE DETERMINATION OF THEIR GOVERNMENTS TO WORK
-- TO THIS END.

INTERDEPENDENCE, TRADE AND ADJUSTMENT

19. MINISTERS DISCUSSED RECENT CHANGES IN THE PATTERN OF WORLD PRODUCTION AND TRADE, WITH PARTICULAR REFERENCE TO THE INDUSTRIAL ADVANCES MADE BY SOME DEVELOPING COUNTRIES. WHILE, ESPECIALLY UNDER CONDITIONS OF SLOWER GROWTH, THESE ADVANCES HAVE BEEN A FACTOR IN ADJUSTMENT PROBLEMS IN A LIMITED NUMBER OF INDUSTRIAL SECTORS, MINISTERS AGREED THAT TRADE WITH DEVELOPING COUNTRIES HAS BROUGHT POSITIVE BENEFITS TO BOTH PARTIES, AND THAT THERE IS A MUTUAL INTEREST IN CONTINUED EXPANSION OF SUCH TRADE. MINISTERS REITERATED THEIR COMMITMENT TO AN OPEN MULTILATERAL TRADING SYSTEM ON A WORLD-WIDE BASIS AND RE-AFFIRMED THEIR READINESS TO ADJUST TO CHANGES IN THE PATTERN OF WORLD PRODUCTION AND TRADE. RENEWAL OF THE TRADE PLEDGE, A SUCCESSFUL OUTCOME TO THE MULTILATERAL TRADE NEGOTIATIONS AND ENDORSEMENT OF THE NEED FOR MORE POSITIVE ADJUSTMENT POLICIES WILL CONTRIBUTE TO THIS END.

20. AT THE SAME TIME MINISTERS NOTED THE ADVANTAGES WHICH WOULD FOLLOW TO THE WORLD ECONOMY IN GENERAL, INCLUDING TO OTHER DEVELOPING COUNTRIES, IF DEVELOPING COUNTRIES WITH STRONGER ECONOMIES WOULD PROGRESSIVELY ADAPT THEIR TRADE AND OTHER POLICIES IN LINE WITH THEIR LEVEL OF DEVELOPMENT AND OVERALL FINANCIAL STRENGTH.

INTERDEPENDENCE AND INTERNATIONAL PUBLIC AND PRIVATE INVESTMENT
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21. MINISTERS NOTED THAT INCREASED INVESTMENT IN DEVELOPING COUNTRIES WOULD CONTRIBUTE TO SUSTAINED AND MORE BALANCED WORLD ECONOMIC GROWTH AS WELL AS ENHANCING DEVELOPMENT IN THE COUNTRIES CONCERNED. BOTH DEVELOPED AND DEVELOPING COUNTRIES THEREFORE SHOULD HAVE A MUTUAL INTEREST IN MEASURES TO STIMULATE INVESTMENT IN DEVELOPING COUNTRIES ON AN ECONOMIC BASIS. AMONG THE SECTORS MENTIONED WERE ENERGY, FOOD PRODUCTION, RAW MATERIALS AND PROCESSING AND RELATED INFRASTRUCTURE. IN THIS CONNECTION, MINISTERS NOTED THE IMPORTANCE OF CURRENT AND PROSPECTIVE NEGOTIATIONS TO EXPAND THE LENDING CAPACITY OF THE INTERNATIONAL AND REGIONAL DEVELOPMENT FINANCE INSTITUTIONS. THEY AGREED TO EXAMINE WITHIN THE ORGANISATION THE UTILITY AND FEASIBILITY OF OTHER MEASURES DESIGNED TO INCREASE INVESTMENT FLOWS TO DEVELOPING COUNTRIES, BUILDING ON EXISTING INSTITUTIONS AND MECHANISMS. SUCH MEASURES CLEARLY NEED TO BE COMPATIBLE WITH THE DEVELOPMENT OBJECTIVES OF THE COUNTRIES

CONCERNED AND WOULD NATURALLY HAVE TO BE WORKED OUT IN CLOSE COOPERATION WITH THE DEVELOPING COUNTRIES. THESE MEASURES, WHICH SHOULD ALSO BE OF A KIND TO STIMULATE INVESTMENT IN LEAST DEVELOPED COUNTRIES, SHOULD BE EXPLORED IN THE FRAMEWORK OF POSITIVE DEVELOPMENT COOPERATION INCLUDING INCREASED AID.

ENERGY COOPERATION

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22. MINISTERS ALSO EMPHASIZED THAT THE ENERGY PROBLEMS OF THE FUTURE WOULD AFFECT ALL COUNTRIES AND WOULD NEED TO BE TACKLED BY ALL COUNTRIES WORKING IN COOPERATION. THEY REAFFIRMED THEIR WILLINGNESS TO ENGAGE IN SUCH COOPERATION, ESPECIALLY WITH THE DEVELOPING COUNTRIES.

DEVELOPMENT COOPERATION

23. MINISTERS AGREED ON THE NEED FOR AN EVOLVING APPROACH TO DEVELOPMENT COOPERATION TO HELP DEVELOPING COUNTRIES IN THEIR EFFORTS TO STRENGTHEN AND DIVERSIFY THEIR ECONOMIES, TO SECURE DECENT CONDITIONS OF LIFE

FOR THEIR PEOPLE, AND TO PARTICIPATE INCREASINGLY AS
MORE EQUAL PARTNERS WITHIN THE WORLD ECONOMY. IN PAR-
TICULAR, STEPPED-UP COLLABORATIVE EFFORTS ARE REQUIRED
TO HELP ENSURE THAT THE BASIC NEEDS OF THE WORLD'S POOR
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ARE MET AND TO ENCOURAGE CONSTRUCTIVE STRUCTURAL CHANGE
IN INTERNATIONAL ECONOMIC RELATIONS, LEADING TO A MORE
EQUITABLE AND STABLE INTERNATIONAL ECONOMIC SYSTEM.
MINISTERS NOTED THE DISAPPOINTING OVERALL RECENT LEVEL
OF AID FLOWS. HOWEVER, THEY WELCOMED THE PERFORMANCE
OF SOME DONORS AND THE STATEMENTS BY A NUMBER OF OTHER
DONORS ON PLANS FOR EXPANDING THEIR AID ALLOCATIONS
AND TAKING OTHER MEASURES TO MAKE THEIR OFFICIAL ASSIS-
TANCE MORE EFFECTIVE. MINISTERS OF OECD COUNTRIES,
DONORS OF AID, REAFFIRMED THE INTENTION AS EXPRESSED
BY THEIR COUNTRIES IN DIFFERENT FORA TO INCREASE EFFEC-
TIVELY AND SUBSTANTIALLY THEIR OFFICIAL DEVELOPMENT
ASSISTANCE AND TO ACHIEVE AN IMPROVED BALANCE OF THEIR
EFFORTS IN THIS REGARD. THEY AGREED TO EXAMINE FURTHER
HOW BESHTO ENSURE THAT LARGER AID ALLOCATIONS ARE
EFFECTIVELY SPENT.

IV. OTHER MATTERS

ILLICIT PAYMENTS

24. MINISTERS EXPRESSED THEIR SATISFACTION WITH THE
SUBSTANTIAL PROGRESS MADE THIS YEAR BY THE SPECIAL WORK-
ING PARTY OF THE UNITED NATIONS ECONOMIC AND SOCIAL
COUNCIL IN THE PREPARATION OF A TREATY TO PREVENT ILLI-
CIT PAYMENTS IN CONNECTION WITH INTERNATIONAL COMMERCIAL
TRANSACTIONS. THEY EXPRESSED THE WISH THAT SUBSEQUENT
PROGRESS WOULD PERMIT THAT A CONFERENCE OF PLENIPOTEN-
TIARIES COULD BE CONVENED AT THE EARLIEST POSSIBLE DATE.

ANNEX I

DECLARATION

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REVISED TEXT OF THE DECLARATION OF MAY 30, 1974 ADOPTED
BY GOVERNMENTS OF OECD MEMBER COUNTRIES ON JUNE 15, 1978

GOVERNMENTS OF OECD MEMBER COUNTRIES (INCLUDING THE

EUROPEAN COMMUNITIES)

CONSIDERING THAT THOUGH THE ECONOMIC SITUATION IS IN SEVERAL RESPECTS DIFFERENT FROM THAT WHICH PREVAILED AT THE TIME OF THE ADOPTION OF THE DECLARATION IN 1974, IT IS STILL CHARACTERISED BY THE PROBLEM OF ADJUSTMENT TO HIGHER ENERGY PRICES AND BY A NUMBER OF OTHER SERIOUS DIFFICULTIES SUCH AS SLOW ECONOMIC GROWTH, HIGH LEVELS OF UNEMPLOYMENT, UNDER-UTILISATION OF PRODUCTIVE CAPACITY IN A NUMBER OF SECTORS, CONTINUING INFLATION, SERIOUS INBALANCES IN INTERNATIONAL PAYMENTS AND MONETARY PROBLEMS;

CONSIDERING THAT DIFFICULTIES EXPERIENCED BY CERTAIN SECTORS, OFTEN SIMULTANEOUSLY IN MANY COUNTRIES, REFLECT THE CONTINUED WEAKNESS OF DEMAND TOGETHER WITH STRUCTURAL CHANGES SUCH AS SHIFTS IN RELATIVE PRICES, IN COMPETITIVE POSITIONS, AND IN PRODUCTION AND TRADE PATTERNS;

CONSIDERING THAT THESE DIFFICULTIES CONSTITUTE AN IMPORTANT SOURCE OF TENSION IN THE TRADE FIELD AND THAT THEREFORE THE RISK REMAINS THAT UNILATERAL TRADE AND OTHER CURRENT ACCOUNT MEASURES COULD TOUCH OFF CHAIN REACTIONS OF PROTECTIONISM;

CONSIDERING THAT ALL MEMBER COUNTRIES ARE AFFECTED BY THESE DEVELOPMENTS, THOUGH IN VARYING DEGREES;

AGREE:

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THAT THE NATURE AND SIZE OF THESE DIFFICULTIES
CONTINUED TO CALL FOR WIDE CO-OPERATIVE ACTION IN THE
FIELDS OF ECONOMIC, TRADE, FINANCIAL, MONETARY,
INVESTMENT, ENERGY, EMPLOYMENT AND DEVELOPMENT
POLICIES, DESIGNED NOTABLY TO ACHIEVE MORE SATISFACTORY,
SUSTAINED AND BALANCED ECONOMIC GROWTH;

THAT THE FINANCING OF INTERNATIONAL PAYMENTS
DEFICITS REMAINS A DIFFICULT PROBLEM FOR CERTAIN
MEMBER COUNTRIES AND THAT, ACCORDINGLY, MEMBER
COUNTRIES WILL CO-OPERATE FULLY TO FACILITATE SUCH
FINANCING AND ARE READY TO CONSIDER APPROPRIATE
ARRANGEMENTS WHICH MAY PROVE
NECESSARY IN THIS RESPECT;

THAT UNILATERAL TRADE OR OTHER CURRENT ACCOUNT
MEASURES BY ONE OR MORE MEMBER COUNTRIES TO DEAL WITH
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THE CURRENT SITUATION WOULD AGGRAVATE THE PROBLEMS OF
OTHER COUNTRIES WITHOUT SOLVING THE UNDERLYING
DIFFICULTIES IN A LONGER TERM PERSPECTIVE AND, IF
GENERALISED, WOULD BE SELF-DEFEATING AND HAVE A
DEPRESSING EFFECT ON THE WORLD ECONOMY;

THAT COUNTRIES HAVE RESPONSIBILITIES BOTH AS
IMPORTERS AND EXPORTERS TO AVOID DISRUPTION OF REGULAR
TRADE FLOWS;

THAT, IN THE CASE OF SECTORAL PROBLEMS, EVERY
EFFORT SHOULD BE MADE TO IDENTIFY THEM BEFORE THEY
ASSUME CRITICAL PROPORTIONS AND THAT ACTION IN THIS
FIELD SHOULD BRING ABOUT ADAPTATIONS THROUGH MEASURES
WHICH DO NOT TRANSFER THE BURDEN OF ADJUSTMENT TO
TRADING PARTNERS AND WHICH AVOID OR MINIMIZE DISTOR-

TIONS TO TRADE;

THAT THERE IS THEREFORE A CONTINUING NEED FOR A JOINT UNDERTAKING, HAVING AS ITS OBJECTIVE TO PREVENT UNILATERAL ACTION WHICH MAY HAVE A DETRIMENTAL IMPACT ON INTERNATIONAL ECONOMIC RELATIONS;

THAT THE SUCCESSFUL OUTCOME IN THE NEAR FUTURE OF THE MULTILATERAL TRADE NEGOTIATIONS IN BOTH INDUSTRIAL AND AGRICULTURAL AREAS AND ITS IMPLEMENTATION WILL IMPROVE AND STRENGTHEN THE OPEN, MULTILATERAL TRADING SYSTEM;

THAT, WITH A VIEW TO STIMULATING MUTUALLY BENEFICIAL GROWTH OF WORLD TRADE, THERE IS A NEED TO IMPROVE THE TRADE RELATIONS BETWEEN INDUSTRIALISED AND DEVELOPING COUNTRIES;
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REAFFIRM THEIR DETERMINATION, IN THE LIGHT OF THE FOREGOING AND FOR A PERIOD OF ONE YEAR,

(A) TO AVOID HAVING RECOURSE TO UNILATERAL MEASURES, OF EITHER A GENERAL OR A SPECIFIC NATURE, TO RESTRICT IMPORTS OR HAVING RECOURSE TO SIMILAR MEASURES ON THE OTHER CURRENT ACCOUNT TRANSACTIONS, WHICH WOULD BE CONTRARY TO THE OBJECTIVES OF THE PRESENT DECLARATION;

(B) TO AVOID MEASURES TO STIMULATE EXPORTS OR OTHER CURRENT ACCOUNT TRANSACTIONS ARTIFICIALLY; AND, INTER ALIA, ABSTAIN FROM DESTRUCTIVE COMPETITION IN OFFICIAL SUPPORT OF EXPORT CREDIT AND AIM AT CONTINUING PROGRESS IN CO-OPERATIVE ACTION TO THIS EFFECT;

(C) TO AVOID EXPORT RESTRICTIONS WHICH WOULD BE CONTRARY TO THE OBJECTIVES OF THE PRESENT DECLARATION;

(D) TO CONSULT WITH EACH OTHER, MAKING FULL USE OF THE GENERAL PROCEDURES OF CONSULTATION WITHIN OECD, IN ORDER TO ASSURE THAT THE PRESENT DECLARATION IS PROPERLY IMPLEMENTED;

(E) TO IMPLEMENT THE PRESENT DECLARATION IN ACCORDANCE WITH THEIR INTERNATIONAL OBLIGATIONS

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AND WITH DUE REGARD TO THE SPECIAL NEEDS OF
DEVELOPING COUNTRIES.

ANNEX II

POLICIES FOR ADJUSTMENT: SOME GENERAL ORIENTATIONS

1. CERTAIN INDUSTRIES, REGIONS AND GROUPS IN THE
LABOUR FORCE HAVE BEEN PARTICULARLY HARD HIT BY THE
SEQUENCE OF EVENTS SINCE THE EARLY 1970S - THE
SYNCHRONOUS BOOM, INFLATION AND THE OIL CRISIS - WHICH
HAVE CHANGED RELATIVE PRICES, COST STRUCTURES AND
PATTERNS OF DEMAND. ADJUSTMENT TO THESE CHANGES HAS
BEEN RENDERED MORE DIFFICULT AND PAINFUL BY SLOW
GROWTH, HIGH UNEMPLOYMENT AND LONGER-RUN TRENDS WHICH
HAVE INCREASED FIXED COSTS.

2. GIVEN THE PERSISTENCE OF ABNORMALLY HIGH UNEMPLOY-
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MENT THERE HAS BEEN A SHORT-TERM CASE TO CUSHION THE IMPACT OF THESE CHANGES BY SELECTIVE MEASURES DESIGNED TO MAINTAIN EXISTING EMPLOYMENT AND PRESERVE EXISTING PRODUCTIVE CAPACITY. OVER TIME, HOWEVER, THERE IS LIKELY TO BE A DETERIORATION IN THE TRADE-OFF BETWEEN THE SHORT-TERM ECONOMIC AND SOCIAL BENEFITS FROM SUCH MEASURES AND THEIR LONGER-RUN COSTS. ACTION TO PROVIDE HELP AT THE SPECIFIC POINT AT WHICH LABOUR IS ABOUT TO BE LAID OFF, OR PRODUCERS TO GO OUT OF BUSINESS, WILL, IF ROLLED FORWARD, OFTEN TURN OUT TO BE ACTION TO SUPPORT EMPLOYMENT WHERE LABOUR IS BEING USED LEAST EFFICIENTLY OR TO PRODUCE PRODUCTS FOR WHICH THERE IS NO LONGER A MARKET. THE ECONOMY WILL GRADUALLY BECOME BOTH LESS PRODUCTIVE AND MORE INFLATION PRONE. MOREOVER, SUCH DOMESTIC MEASURES MAY HAVE MUCH THE SAME EFFECT AS PROTECTION AT THE FRONTIER IN ENABLING INEFFICIENT PRODUCERS TO COMPETE WITH FOREIGN SUPPLIERS AND IN DELAYING NECESSARY STRUCTURAL ADJUSTMENTS. THEY MAY BOTH CREATE A VESTED INTEREST IN PROTECTION IN THE COUNTRY CONCERNED AND PROVOKE PROTECTIONIST REACTIONS IN OTHER COUNTRIES.

3. AMORE CONSTRUCTIVE APPROACH IS TO FURTHER ADJUSTMENT TO NEW CONDITIONS, RELYING AS MUCH AS POSSIBLE ON MARKET FORCES TO ENCOURAGE MOBILITY OF LABOUR AND CAPITAL TO THEIR MOST PRODUCTIVE USES. AT THE SAME TIME, GOVERNMENTS ARE PURSUING OTHER SOCIAL AND POLITICAL OBJECTIVES CONCERNING THE SOCIAL AND PHYSICAL ENVIRONMENTS, THE DISTRIBUTION OF INCOME, AND THE FAIR SHARING OF THE BURDEN OF ADJUSTMENT TO STRUCTURAL CHANGE. IT IS ESSENTIAL, HOWEVER, THAT THESE GOALS SHOULD BE SOUGHT THROUGH POLICIES WHICH MINIMISE ANY RESULTING COSTS IN TERMS OF REDUCED ECONOMIC EFFICIENCY.

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4. IT IS DIFFICULT FOR COUNTRIES TO SHIFT AWAY FROM DEFENSIVE ACTION TO PROP UP WEAK SECTORS UNLESS OVERALL DEMAND IS RISING FAST ENOUGH TO PROVIDE ALTERNATIVE EMPLOYMENT ELSEWHERE. EQUALLY, HOWEVER, A PROGRESSIVE SHIFT AWAY FROM DEFENSIVE POLICIES IS NECESSARY, ALONG WITH APPROPRIATE MACRO-ECONOMIC POLICIES, TO ENSURE SUSTAINED GROWTH. OTHERWISE, WITH LABOUR AND CAPITAL LOCKED INTO DECLINING ACTIVITIES, BOTTLENECKS WILL EMERGE AND RENEWED INFLATION WILL CONSTRAIN EXPANSIONARY POLICIES AND UNDERMINE THE RECOVERY. A PROGRESSIVE SHIFT TO MORE POSITIVE ADJUSTMENT POLICIES MUST, THEREFORE, BE AN INTEGRAL PART OF THE PROGRAMME OF CONCERTED ACTION FOR MORE SUSTAINED AND BETTER BALANCED GROWTH IN THE WORLD ECONOMY.

5. WHILE THERE IS A CLOSE INTERRELATIONSHIP BETWEEN GROWTH AND ADJUSTMENT POLICIES, IT SHOULD NOT BE INTERPRETED RIGIDLY. IN SOME CASES, ACTION CAN AND SHOULD BE TAKEN IN ADVANCE OF ACHIEVING FASTER GROWTH. THIS APPLIES GENERALLY TO MEASURES DESIGNED TO AVOID INTRODUCING FURTHER RIGIDITIES INTO THE ECONOMIC SYSTEM OR TO ALLEVIATE EXISTING ONES. IT MAY ALSO APPLY WHERE THE BUDGETARY COSTS HAVE BECOME TOO HIGH, OR WHERE LABOUR AND CAPITAL NEED TO BE SHIFTED IN THE INTEREST OF IMPROVING THE COMPETITIVE STRENGTH OF COUNTRIES WITH A WEAK BALANCE OF PAYMENTS, OR OF SHIFTING RESOURCES AWAY FROM THE EXPORT SECTOR IN COUNTRIES WITH AN EXCESSIVELY STRONG EXTERNAL POSITION. ON THE OTHER HAND,

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THERE MAY BE CASES WHERE THE PHASING OUT OF TEMPORARY MEASURES WITH A HIGH SHORT-TERM SOCIAL RETURN AND RELATIVELY LOW SHORT-TERM ECONOMIC COST CAN BE LEFT UNTIL APPRECIABLE PROGRESS HAS BEEN MADE IN REDUCING UNEMPLOYMENT.

6. IN SUM, A REASONABLY STRONG RISE IN AGGREGATE DEMAND AND THE PROSPECT OF SUSTAINED GROWTH ARE

REQUIRED IF GOVERNMENTS ARE TO SHIFT TO MORE POSITIVE ADJUSTMENT POLICIES, BUT THE RISE IN DEMAND WILL NOT BE SUSTAINABLE UNLESS SUCH A SHIFT IS STARTED AT THE EARLIES POSSIBLE OPPORTUNITY.

INDUSTRIAL POLICY

7. IN RESPONDING TO REQUESTS FOR HELP FROM ENTERPRISES IN THE INDUSTRIAL SECTOR IN FINANCIAL DIFFICULTY, IT UNCLASSIFIED

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SHOULD BE RECOGNISED THAT UNDER NORMAL CONDITIONS THERE IS USUALLY A PRESUMPTION AGAINST SELECTIVE ACTION TO ASSIST LOSS-MAKING ACTIVITIES, IN FAVOUR OF MORE GENERAL MEASURES. WHERE THE DIFFICULTIES BEING ENCOUNTERED ARE MAINLY CYCLICAL, THEY WILL NORMALLY BE BEST HANDLED BY MEASURES TO FACILITATE ACCESS TO EXTERNAL SOURCES OF FINANCE AND TO RAISE DEMAND AND IMPROVE PROFITABILITY IN THE ECONOMY AS A WHOLE. EVEN WHERE THE DIFFICULTIES ARE MORE DEEP-SEATED, REFLECTING UNANTICIPATED ADVERSE TRENDS IN DEMAND OR COMPETITION FROM OTHER SOURCES OF SUPPLY, SPECIAL INTERVENTION WILL NORMALLY ONLY BE JUSTIFIED IF THE ECONOMIC OR SOCIAL COSTS OF THE NECESSARY ADJUSTMENTS ARE LIKELY TO BE UNACCEPTABLY HIGH IN THE SHORT RUN, AND CANNOT BE ADEQUATELY HANDLED THROUGH EXISTING POLICIES TO EASE THE BURDENS OF ADJUSTMENT. THUS, CASES WHERE SPECIFIC ACTION TO PROTECT OR SUPPORT INDIVIDUAL SECTORS OR COMPANIES IN FINANCIAL DIFFICULTY CAN BE JUSTIFIED, AND ARE LIKELY TO BE SUCCESSFUL, SHOULD BE RELATIVELY RARE.

8. WHERE, NEVERTHELESS, GOVERNMENTS FIND IT NECESSARY TO INTERVENE, EXPERIENCE HAS SHOWN THE IMPORTANCE OF THE FOLLOWING CRITERIA:

(I) ACTION SHOULD BE TEMPORARY AND SHOULD WHEREVER POSSIBLE, BE REDUCED PROGRESSIVELY ACCORDING TO A PRE-ARRANGED TIMETABLE.

(II) SUCH ACTION SHOULD BE INTEGRALLY LINKED TO THE IMPLEMENTATION OF PLANS TO PHASE OUT OBSOLETE CAPACITY AND RE-ESTABLISH FINANCIALLY VIABLE ENTITIES, WITHOUT, HOWEVER, SEEKING TO RAISE PRICES ABOVE LEVELS PROVIDING AN ADEQUATE

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RETURN TO EFFICIENT PRODUCERS.

(III) THE COST SHOULD BE MADE AS EVIDENT AS POSSIBLE
TO DECISION-MAKERS AND THE PUBLIC AT LARGE.
CAREFUL ATTENTION SHOULD BE PAID TO THE COST
TO CONSUMERS OF ACTION WHICH RAISES PRICES,
TO THE COST TO TAXPAYERS, AND TO THE EFFECTS
OF SUBSIDISED COMPETITION ON EMPLOYMENT ELSE-
WHERE.

(IV) WHERE PUBLIC FUNDS ARE BEING INJECTED INTO
THE PRIVATE SECTOR, IT IS DESIRABLE THAT PRI-
VATE RISK CAPITAL SHOULD BE INVOLVED.

(V) ASSISTANCE GIVEN ON A COMPANY-BY-COMPANY BASIS
SHOULD BE FRAMED SO AS TO PROVIDE AN INCENTIVE
FOR IMPROVED MANAGEMENT PRACTICES, NOTABLY BY
ENSURING SUFFICIENT DOMESTIC AND INTERNATIONAL
COMPETITION.

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(VI) WHERE THE PRIMARY OBJECTIVE IS TO SUPPORT
EMPLOYMENT IN PARTICULAR REGIONS OR TOWNS,

CONSIDERATION SHOULD BE GIVEN TO ACTION THAT CAN BENEFIT ANY ELIGIBLE COMPANY IN THE AREA CONCERNED, RATHER THAN ONLY THOSE IN FINANCIAL DIFFICULTY.

(VII) WHILE RECOGNISING THAT GOVERNMENTS MUST PAY DUE REGARD TO THE INTERESTS OF NATIONAL SECURITY, CARE SHOULD BE TAKEN TO SEE THAT ARGUMENTS BASED ON CONSIDERATIONS OF SELF-SUFFICIENCY SHOULD NOT BE MISUSED TO JUSTIFY MEASURES FOR PROTECTION AND SUPPORT.

9. TO VARYING DEGREES, OECD GOVERNMENTS HAVE TRIED TO FOLLOW INDUSTRIAL POLICIES AIMED AT " PICKING THE WINNERS" EXPERIENCE SHOWS, HOWEVER, THAT THIS IS FAR FROM EASY, UNCLASSIFIED

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PARTICULARLY FOR INDUSTRIAL COUNTRIES AT THE FRONTIERS OF TECHNOLOGICAL PROGRESS AND CHANGING PATTERNS OF CONSUMPTION, AND POSSESSING ROUGHLY SIMILAR FACTOR ENDOWMENTS AND MANAGEMENT SKILLS.

10. THERE ARE, HOWEVER, DIRECTIONS IN WHICH ACCORDING TO COUNTRY CIRCUMSTANCES, POLICIES BASED ON RATIONAL ECONOMIC CRITERIA MAY SEEK TO SUPPLEMENT MARKET FORCES IN PROMOTING DESIRABLE DEVELOPMENTS. FOR EXAMPLE:

(I) THERE ARE CERTAIN AREAS WHERE MARKETS ARE UNLIKELY ADEQUATELY TO REFLECT AND ANTICIPATE FUTURE ECONOMIC AND SOCIAL NEEDS. THIS APPLIES, FOR EXAMPLE, TO RESEARCH AND DEVELOPMENT AND INVESTMENT IN PRODUCING AND SAVING ENERGY; TO IMPROVEMENTS IN ENVIRONMENTAL QUALITY, HEALTH CARE, URBAN INFRASTRUCTURE, ETC.

(II) RECENT DIFFICULTIES HAVE CAUSED MANY COMPANIES TO REDUCE LONG-TERM RESEARCH IN ADVANCED TECHNOLOGIES INVOLVING LARGE INVESTMENTS, IN FAVOUR OF RESEARCH TO MEET MORE IMMEDIATE REQUIREMENTS. GOVERNMENTS SHOULD, THEREFORE, ENSURE THAT ADEQUATE INCENTIVES FOR LONG-TERM RESEARCH AND DEVELOPMENT EXIST.

(III) SINCE MUCH TECHNOLOGICAL PROGRESS AND RESPONSE TO CHANGED DEMANDS HAS COME FROM SMALL AND MEDIUM-SIZED COMPANIES, THERE IS A GOOD CASE FOR STRENGTHENING POLICIES DESIGNED TO ENSURE THAT THEY HAVE ADEQUATE ACCESS TO VENTURE CAPITAL AND INCENTIVES AND OPPORTUNITIES TO INNOVATE, SPECIALISE AND MODERNISE.

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EMPLOYMENT AND MANPOWER POLICIES

11. THE LONGER SLOW GROWTH CONTINUES, THE MORE IMPORTANT IT BECOMES TO ENSURE THAT MEASURES TO PROTECT EMPLOYMENT DO NOT PRESERVE UNVIABLE INDUSTRIAL STRUCTURES, IMPEDE TECHNOLOGICAL CHANGE AND DISTORT TRADE FLOWS. THE VERY SUCCESS OF SUCH POLICIES IN ALLEVIATING UNEMPLOYMENT CAN LEAD TO STRONG PRESSURES TO CARRY THEM FORWARD INTO THE MEDIUM TERM.

12. THERE IS A PARTICULARLY STRONG LINK HERE BETWEEN THE CONDITIONS FOR SUSTAINED ECONOMIC GROWTH AND A SHIFT TO MORE POSITIVE ADJUSTMENT POLICIES. TO MEET LONGER-RUN ECONOMIC AND SOCIAL OBJECTIVES:

- (I) THERE SHOULD BE RENEWED EMPHASIS ON SUPPLY MEASURES SUCH AS TRAINING, MOBILITY AND PLACE-MENT TO FACILITATE ADJUSTMENT TO SHIFTING DEMANDS, TECHNOLOGICAL PROGRESS AND CHANGING PATTERNS OF TRADE.

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- (II) JOB CREATION PROGRAMMES SHOULD BE TARGETED MORE DIRECTLY TO BENEFIT CLEARLY-DEFINED DIS-ADVANTAGED GROUPS ENCOUNTERING STRUCTURAL EMPLOYMENT PROBLEMS (YOUTH, WOMEN, MINORITIES AND OTHER TARGET GROUPS).

AS THE GENERAL EXPANSION OF OUTPUT GATHERS SUFFICIENT MOMENTUM TO BRING ABOUT SUSTAINED REDUCTION IN UNEMPLOYMENT:

- (III) GENERAL INCENTIVES TO PREVENT REDUNDANCIES SHOULD BE PHASED OUT, OR REPLACED BY SCHEMES WHICH ENCOURAGE TAKING ON ADDITIONAL WORKERS IN OTHER ACTIVITIES.

- (IV) TEMPORARY JOB CREATION SCHEMES IN THE PUBLIC SECTOR WHICH MERELY SERVE TO MAINTAIN EMPLOY-
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MENT IN PLACE OF INCOME SUPPORT SHOULD BE SCALED DOWN, WHILE CONTINUING TO DEVELOP PROGRAMMES TO MEET LEGITIMATE NEEDS FOR INCREASED PUBLIC SERVICES.

13. ACTION IS ALSO NECESSARY TO REDUCE THE RIGIDITIES AND DISTORTIONS IN THE LABOUR MARKET WHICH HAVE BECOME INCREASINGLY APPARENT UNDER CONDITIONS OF SLOW GROWTH:

- (I) IMPROVED JOB SECURITY CUSHIONS THE IMPACT OF CHANGE ON INDIVIDUALS, GIVES THEM MORE TIME TO ADJUST AND PROVIDES COMPENSATION FOR THE ECONOMIC AND SOCIAL COSTS INVOLVED. AT THE SAME TIME, HOWEVER, IT MAY SLOW DOWN NECESSARY SHIFTS IN EMPLOYMENT AND MAY INHIBIT THE THE INVESTMENTS CALLED FOR BY TECHNOLOGICAL CHANGE; UNDER CONDITIONS OF SLOW GROWTH, IT ALSO DISCRIMINATES AGAINST THOSE WITHOUT JOBS. IN COUNTRIES WHERE THIS IS A SERIOUS PROBLEM, THERE IS A GOOD CASE FOR SHIFTING MORE OF THE COSTS OF CHANGING JOBS (REDUNDANCY PAYMENTS, RETRAINING, ETC.) FROM EMPLOYERS TO SOCIETY AS A WHOLE, EITHER BY TAKING THEM OVER DIRECTLY OR BY PROVIDING COMPENSATION THROUGH THE TAX OR TRANSFER SYSTEM.

(II) COMPANIES' ABILITY TO COMPETE CAN BE HAMPERED
AND DISTORTED BY ARRANGEMENTS FOR FINANCING
SOCIAL SECURITY WHICH HAVE THE EFFECT OF LEVY-
ING A HEAVY TAX ON EMPLOYMENT, PARTICULARLY
ON THE LOWEST PAID WORKERS. THIS INTRODUCES
AN UNNECESSARY BIAS IN FAVOUR OF LABOUR-
SAVING INVESTMENT AND AGAINST LABOUR-INTENSIVE ACTIVI-
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TIES - WHICH, PARADOXICALLY, THE GOVERNMENT
MAY FIND ITSELF HAVING TO PROTECT OR SUBSIDISE
TO ENABLE THEM TO COMPETE WITH COMPETITION
FROM "LOW WAGE" COUNTRIES. THE SITUATION IN
THIS RESPECT VARIES GREATLY BETWEEN COUNTRIES,
BUT IN SOME COUNTRIES THERE APPEAR TO BE GOOD
GROUNDS FOR SHIFTING FROM WHAT ARE, IN EFFECT,
TAXES ON THE USE OF LABOUR, TO TAXES ON INCOME
OR EXPENDITURE.

(III) BETTER FUNCTIONING OF THE LABOUR MARKET CALLS
FOR EFFORTS BY GOVERNMENTS, UNIONS AND EMPLOY-
ERS TO ENSURE THAT THE STRUCTURE OF WAGES DOES
NOT INHIBIT THE ADJUSTMENT OF LABOUR SUPPLY TO
CHANGIN NEEDS AND ADVERSELY AFFECT THE EMPLOY-
MENT PROSPECTS OF CERTAIN TYPES OF LABOUR.

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14. THE CAPACITY AND WILLINGNESS OF LABOUR TO ADJUST TO CHANGING EMPLOYMENT PATTERNS IS ALSO INFLUENCED BY THE ARRANGEMENTS FOR PROVIDING INCOME SUPPORT TO THE UNEMPLOYED. WHILE SUCH ARRANGEMENTS ARE ESSENTIAL TO ALLEVIATE SOCIAL HARDSHIP, AND TO GIVE WORKERS TIME TO FIND NEW JOBS SUITED TO THEIR NEEDS AND ABILITIES, THEY SHOULD BE CAREFULLY DESIGNED TO ENSURE THAT, OVER TIME, THEY DO NOT UNDULY AFFECT ATTITUDES TO WORK AND WILLINGNESS TO ACCEPT NECESSARY CHANGE. UNDER CONDITIONS OF PERSISTENT SLOW GROWTH, THERE IS ALSO AN INCREASING NEED FOR SPECIAL EMPLOYMENT PROGRAMMES DIRECTED TO THE LONG-TERM UNEMPLOYED.

AGRICULTURAL POLICY

15. POLICIES TOWARDS AGRICULTURE HAVE TRADITIONALLY
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BEEN INFLUENCED BY BROAD SOCIAL AND POLITICAL OBJECTIVES, TAKING INTO ACCOUNT DIFFERENT NATIONAL CONDITIONS. AS PART OF THESE POLICIES CONSIDERABLE EMPHASIS HAS BEEN PUT ON INCREASING AGRICULTURAL PRODUCTIVITY IN OECD MEMBER COUNTRIES. UNDER CONDITIONS OF SLOW GROWTH, THESE POLICIES HAVE HELPED TO SUPPORT AGRICULTURAL INCOMES AND EMPLOYMENT AT A TIME WHEN THERE HAVE BEEN FEWER EMPLOYMENT OPPORTUNITIES FOR SURPLUS AGRICULTURAL LABOUR IN THE REST OF THE ECONOMY. ALTHOUGH, IN THIS RESPECT, THESE POLICIES HAVE A STABILIZING EFFECT, THEY INVOLVE RISKS AND COSTS AS SET OUT IN PARAGRAPHS 2 AND 3. UNDER PRESENT DIFFICULT CONDITIONS WITH CONTINUING INFLATIONARY DANGERS, IT IS PARTICULARLY IMPORTANT TO ENSURE THAT AGRICULTURAL POLICIES, NO LESS THAN THE OTHER POLICIES DISCUSSED ABOVE, ARE DESIGNED TO ACHIEVE THEIR SOCIAL, ECONOMIC AND POLITICAL OBJECTIVES AT MINIMUM COST TO THE CONSUMER AND TAXPAYER WITHOUT NEGLECTING THE LEGITIMATE INTERESTS OF THE AGRICULTURAL PRODUCERS AND WHILE ENSURING THE NECESSARY OVERALL FOOD SECURITY. MORE GENERALLY, IT IS ADVISABLE TO SEEK IMPROVEMENT IN THE FUNCTIONING OF AGRICULTURAL MARKETS AS WELL AS IN THEIR STABILIZATION.

REGIONAL POLICY

16. A RECENT OECD REVIEW OF REGIONAL POLICIES NOTED THAT THERE HAD BEEN A SHIFT TOWARDS ASSISTANCE WHICH WAS NOT REGIONALLY DIFFERENTIATED BUT WENT TO SECTORS OR ENTERPRISES FACING SEVERE STRUCTURAL PROBLEMS OR OTHER DIFFICULTIES. BUT SINCE SUCH SUPPORT WILL NOT HELP TO DEVELOP VIABLE NEW INDUSTRIES IN THE WEAK REGIONS, THERE WILL BE A STRONG CASE FOR SHIFTING THE EMPHASIS PROGRESSIVELY BACK TO MEASURES MORE LIKELY TO BE BENEFICIAL OVER UNCLASSIFIED

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THE LONGER TERM, SUCH AS THE PROVISION OF INFRASTRUCTURE AND REGIONALLY DIFFERENTIATED FISCAL ARRANGEMENTS.

REGULATORY POLICY

17. IN ORDER TO INCREASE THE ABILITY OF THE ECONOMY TO ADJUST TO NEW CONDITIONS, GOVERNMENTS COULD DO MORE TO REDUCE THE UNCERTAINTIES AND THE ADDITIONAL COSTS

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CAUSED BY THEIR OWN POLICY ACTIONS. THIS IMPLIES EFFORTS TO AVOID UNNECESSARY REGULATION AND REPORTING REQUIREMENTS, AND TO MAINTAIN BETTER COORDINATION, CLARITY AND CONTINUITY IN GOVERNMENT REGULATIONS, INCLUDING THOSE REGARDING SAFETY, HEALTH AND THE ENVIRONMENT.

INTERNATIONAL COOPERATION

18. CONTINUATION OF DEFENSIVE MEASURES AND LACK OF LONGER-RUN RESTRUCTURING PROGRAMMES IN SOME COUNTRIES WILL MAKE IT POLITICALLY DIFFICULT FOR OTHERS TO PURSUE THEIR OWN ADJUSTMENT POLICIES. COLLECTIVE AGREEMENT ON THE NEED TO SHIFT FROM DEFENSIVE TO MORE POSITIVE ADJUSTMENT POLICIES IN THE AREAS OF INDUSTRIAL, EMPLOYMENT AND MANPOWER, AGRICULTURAL, REGIONAL AND REGULATORY POLICIES, AS PART OF A CONCERTED PROGRAMME FOR MORE SUSTAINED AND BETTER BALANCED GROWTH, WILL UNCLASSIFIED

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MAKE IT EASIER FOR EACH MEMBER COUNTRY TO FOLLOW APPROPRIATE DOMESTIC POLICIES, AND TO HONOUR ITS COMMITMENTS UNDER THE OECD TRADE PLEDGE. IT IS ALSO AN AFFIRMATION OF MEMBER COUNTRIES' WILLINGNESS TO ADJUST TO CHANGES IN THEIR TRADE IN MANUFACTURES AND OTHER PRODUCTS WITH DEVELOPING COUNTRIES. CONTINUED EFFORTS FOR COOPERATION AND COORDINATION OF ADJUSTMENT POLICIES IN THE APPROPRIATE FORA, WHEREBY CURRENT AND PERSPECTIVE DEVELOPMENTS ARE REVIEWED, ANALYSED AND DISCUSSED, SHOULD HELP GOVERNMENTS TO FORMULATE POLICIES WHICH TAKE INTO ACCOUNT POSSIBLE IMPACTS ON OTHER COUNTRIES AND INVOLVE A FAIR SHARING OF THE COSTS OF ADJUSTMENT.
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